

Electricity's High Costs And High Prices

Address of Commissioner John A Bohn
To the Northern California Power Authority

Sacramento, California
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Good morning. Thank you for inviting me to your meeting.

As you know, I am a commissioner at the CPUC. I am part of the team of five commissioners who regulate the investor-owned electric utilities, including your neighbor, PG&E. All of you are NOT regulated by the CPUC, and for that you may be grateful.

Today, I would like to bring my perspective to you, and I hope that it will be helpful to you in determining how you operate your utilities.

All of you probably know much more about California's energy crisis than I do. And you have various lessons that you have taken from the crisis. I was not in California at that time, and I was not working in the energy business. There is a certain amount of folklore about those days – about the clash of the forces of good and evil. Still, my memories are not as painful as yours.

Today I don't want to talk about the crisis. Instead, I want to talk about what has come since the crisis, the aftermath, the costs and policies that are still with us in the

wake of the crisis, and what we have to look forward to in the future. Here is where I am going: We Californians are in favor of virtue and against vice; but you should all know that virtue has a price!

Let us look at the present and the future. Not just the future of the IOUs – this may be YOUR future, too, for even though you are not regulated by the CPUC, you still have to live with the legislature and the general thrust of California policy.

So, without going into too much detail, I want to boil down a few points, and I will give you my personal take-away about California's high costs and high prices for electric service.

Let us examine the graph that is labeled the "Good Old Days." Those were NOT the good-old days, and all of you who worked in the electric service should know that. But they may seem like the good-old days compared to what we are facing today.

Back in the year 2000, energy prices to residential customers in PG&E's service territory were just over 13 cents per kilowatt-hour (kWh) in the tail block rate. That was about 60% higher than the national average for all electric service from Investor-Owned Electric Utilities (IOUs) across America. Baseline usage was charged at less than 12 cents per kWh, and even the customers who used more still got the benefit of paying that low price for the first kWh up to 100 percent of baseline. And of course, those customers who used less than 100 percent of the baseline paid the lower price for all of their service. Even

that rate was well above the national average for that year, which was just 8.24 cents per kWh. Think about that number in national and international competitive terms.

PG&E is your neighbor, of course. Still, PG&E's numbers serve here only as an example; the same general story is true for Southern Cal Edison, and for San Diego Gas & Electric. Rates were high. HIGH RATES were one of the reasons for restructuring in the first place.

Today, we have a much higher set of tiered rates, as you can see on the next page, labeled "Today's steep tiered tariff." These new rates show that we believe conservation is a virtue and that excess usage is evil. These rates punish consumers for high usage. Customers who use up to 200 % of the baseline pay 2.4 X the national average for their incremental use. As before, they still get the benefit of the fixed baseline rates for their early consumption, but that is small comfort. Customers above 200 % are in the 3.3 X range – that's three times the national average. And customers above 300 % of the baseline pay 3.8 X the national average!

Holy socks! Who are the people paying those high rates? They are people with high electric usage.

- They may be people with big houses and pools.
- And they are people with old refrigerators, bad air conditioners, and not much insulation in their dwellings.

- They may be people who live in hot areas where housing is affordable, but air conditioning is a requirement.

Regardless of who they are, those are very high prices to pay for what many consider to be an essential service.

Why such high rates? We have high rates for very good reasons. The first reason is that we are awash in virtue. But there are some other more prosaic reasons.

We do not consume very much coal-based power. If we lived in Ohio or Kentucky, you can be sure we would be burning coal to make power. It is relatively inexpensive. But I note that it is not a very clean fuel. And it is relatively carbon-intensive. In California we burn a lot of natural gas. It costs more than coal, and it is a much more pleasant fuel. Clean, easy to transport.

We have high prices because of the costs of recovering from the energy crisis.

- We are paying off bonds.
- We are buying a considerable amount of energy through contracts DWR signed at the peak of the crisis – contracts that, in retrospect, look rather expensive. (Of course, some of those contracts have been renegotiated and are less costly now than they were.) In 2007, about 30% of the electric energy supplied through the IOUs is from DWR contracts. It was as high as 36% in 2004. It will trail off in the next few years, and it drops under 10% in 2012.

We have fixed baseline rates that are less than the average cost of service. The difference is passed on to the other residential customers who have to pay more to make up the difference. Fixing that problem alone would be a very good idea. But that is an issue that is in the hands of the legislature. We at the CPUC cannot change this policy by ourselves.

In addition, we have a series of mandates to do good things. We collect money from the electric utility customers to support those mandates.

We provide service at BELOW-COST rates to low-income customers through the CARE program. Who pays? The above-baseline customers pay.

As I pointed out before, we provide service at BELOW-COST rates to the low-use customers, the baseline customers. Who pays? The above-baseline customers pay.

We have a very tough renewable portfolio standard. That means the utilities are forced to buy renewable electric energy when they could save money by buying traditional power. (Please note that I am not saying these policies are bad or wrong, just that they are expensive.)

We have a Solar Initiative that pays people part of the cost of installing new PV systems. Billions of dollars go into this. Who pays? The above baseline customers pay.

We have an Efficiency program that we hope will result in lower overall costs to customers in the long run. It helps people to switch out old refrigerators and lights. It

supports research, and much, much more. It costs Billions of dollars. Guess who pays those dollars.

We have Greenhouse gas procurement rules that can have the effect of raising costs to customers.

There are many more reasons why electric service is expensive in California, but let us not dwell on the particulars or the details. I only say it to point out that these programs drive up costs, and high costs means high rates. Leadership has a price. Because we carry the mantle of virtue, our costs and our rates will remain high.

Conclusion

And so, let me offer you one man's conclusions.

First, we have high rates today, for all of the reasons I just outlined. Even when the costs of the energy crisis are all paid, we will still have new high costs in the pipeline already. Rates are unlikely to go down; they are more likely to be going up.

You should be aware: Every new mandate costs money. Every piece of new legislation that pushes up costs will continue this process. Every new policy that forces utilities to purchase high-cost inputs will continue the trend. Every requirement to keep certain customers' rates below the level of the average cost of service must, by definition, force up someone else's costs. Even good policies, whether imposed by Commissions or by Legislatures, can have the effect of raising costs. Think about that when considering a potential carbon tax, or a

carbon cap & trade system, or other policies that will promote a better, more virtuous society.

Up to now, most people in California have not complained much about the costs. Possibly that is because it is not apparent to them how much those costs actually are. It is not appropriate for us to obscure the costs of our policies for California. In fact, we should be very aware of them in every decision.

Finally, as some wise person said,

Please don't improve my life any more; I can't afford it.

Ladies and Gentlemen, thank you for inviting me to speak to you today.